

# Statement of Estimated General Fund Balance

## Commitments and Assignments in the Proposed Fiscal Year 2014 Budget

The fiscal year 2014 Operating Budget contains the following commitments and assignments of fund balances estimated to be available as of June 30, 2013:

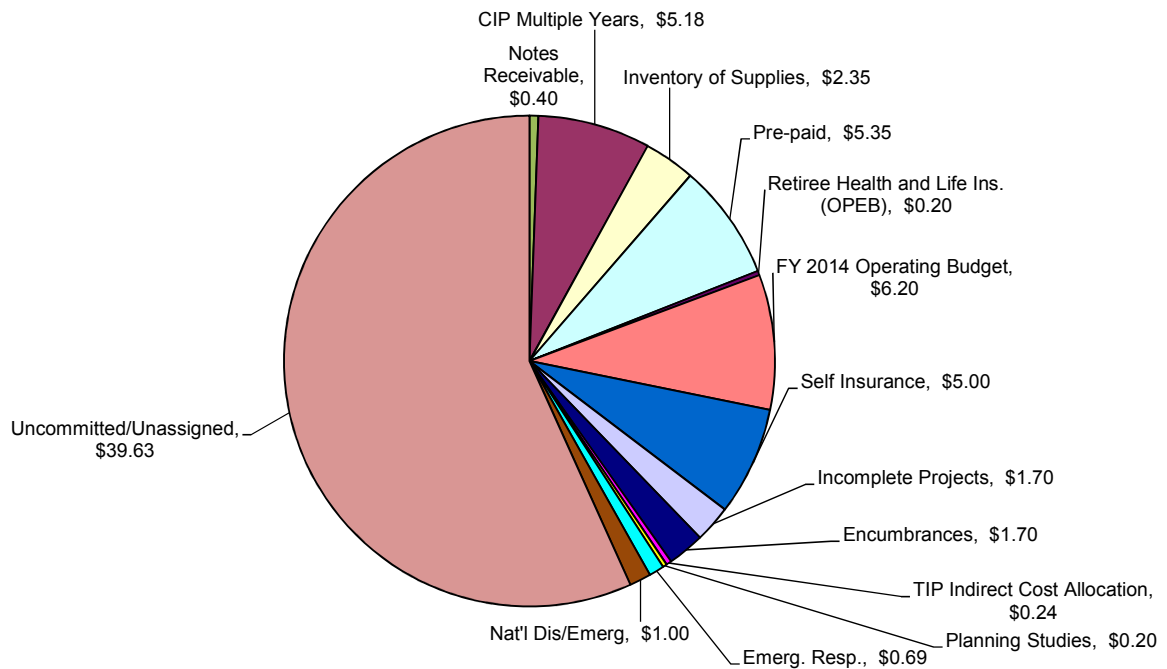
- \$6,204,256 to fund the FY 2014 Operating Budget;
- \$200,000 for partially off-setting the City's liability for post-employment retiree health and life insurance benefits in response to new national accounting standards. This amount will be supplemented by \$1.6 million included in the FY 2013 budget from general fund revenues;
- \$5,182,716 to fund capital projects contained in multiple years of the FY 2014 – FY 2023 Capital Improvement Program budget;
- \$200,000 for the Planning Studies;
- \$5,000,000 for the City's self-insurance reserve;
- \$1,000,000 for FY 2013 Natural Disasters or Emergencies;
- \$1,700,000 for incomplete projects (estimated based on prior years' experience);
- \$1,700,000 for encumbrances obligated at the end of the year;
- \$686,050 for emergency response; and
- \$242,000 to provide for indirect costs in support of the Transportation Improvement Program

These commitments and assignments total \$22.1 million. Despite being designated for a particular purpose, the funds identified here are considered "spendable. When combined with the portion of fund balance that has not been assigned or committed by anyone for any purpose, this total amount is called "spendable" fund balance. Based on projected revenues and expenditures in fiscal year 2013, the uncommitted/unassigned General Fund balance at June 30, 2013 is currently estimated to be \$39.6 million or 6.4 percent of projected FY 2013 General Fund revenues. The spendable General Fund balance is estimated to be \$61.7 million or 10 percent of projected General Fund revenues. The uncommitted and spendable General Fund balance ratio is in accord with the minimum limits established by the debt policy guidelines.

# Statement of Estimated General Fund Balance

The following pie chart shows all of the components of General Fund balance estimated as of June 30, 2013. With the exception of \$0.4 million in Notes Receivable, \$2.35 in inventory of supplies, and \$5.35 million in pre-paid expenditures, all of the components shown below are considered spendable fund balance.

## Fund Balance as of June 30, 2013 \$69.8 million



## Statement of Estimated General Fund Balance

Spendable General Fund Balance is the accumulated total of all prior years' actual General Fund revenues in excess of expenditures — often referred to as "surplus" — that is available for appropriation by City Council. This is in comparison to the Unspendable General Fund Balance that represents monies that have been reserved to pay for legal obligations of the City such as for certain purchase order encumbrances. Maintaining a prudent level of spendable General Fund balance is critical to ensuring that the City is able to cope with financial emergencies and fluctuations in revenue cycles. Spendable General Fund balance also provides working capital during temporary periods when expenditures exceed revenues.

A portion of the spendable fund balance is committed or assigned (designated) for future specific uses on a contingency basis. In order to be available, the funds still must be appropriated by City Council in a future appropriations ordinance. Following this section is an Appendix entitled "Layperson's Guide to Fund Balance" originally written by the City's Budget and Fiscal Affairs Advisory Committee (and updated for new terminology) to explain these financial terms for those not involved regularly in local government finance. This appendix has been updated to reflect revisions in new accounting terms.

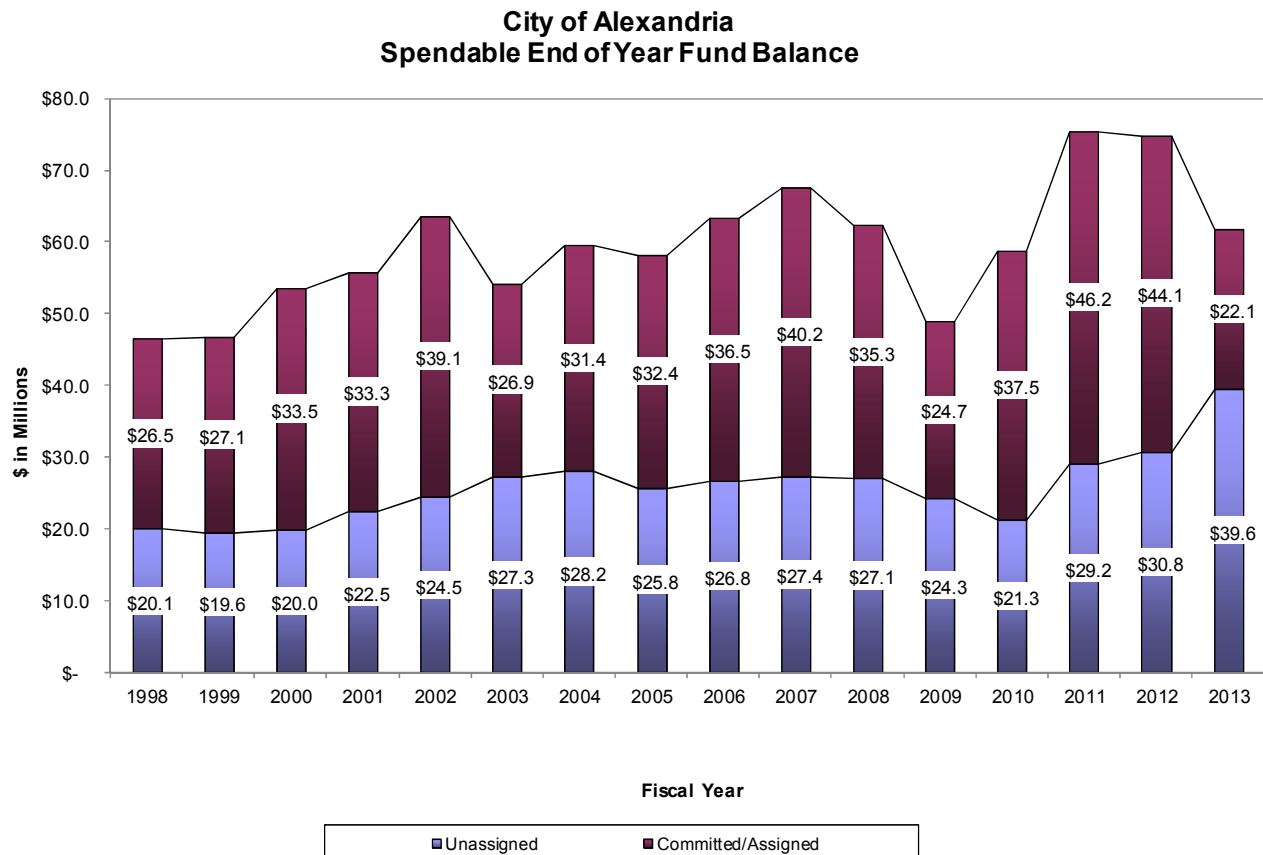
Committed and Assigned fund balances are funds "earmarked" to help the City offset the cost of a specific type of obligation. Although technically available for appropriation, these monies are not generally considered available to fund other program or service requirements by the City Manager or the City Council under the City's adopted financial policies. Uncommitted and unassigned fund balance are the monies considered to be the City's available fund balance. As with all monies in fund balance, if used, it is a one-time source of revenue.

The graph on the following page shows total actual General Fund balance from FY 1998 through FY 2012, and projected fund balance at the close of FY 2013. The FY 2014 budget includes the commitment of a certain portion of estimated General Fund balances for capital projects, in addition to pay-as-you-go capital funding from current revenues. Spendable fund balance (the total amount available for appropriation, regardless of assignments and commitments) is projected to be \$61.7 million as of June 30, 2013, which represents 6.41 percent of FY 2013 projected General Fund revenues. Uncommitted and unassigned fund balance provides \$39.6 million in funds that help to protect against future budget uncertainties.

The details of commitments and assignments from FY 2008 through the proposed assignments of FY 2013 are shown in the table on page 5. It should be noted that commitments have been established by City Council. The City Manager can propose or recommend assignments. Either of these designations is still considered spendable fund balance.

# Statement of Estimated General Fund Balance

The chart below shows the history of fund balance at the end of the year, including the actual balance through FY 2012 and an estimate balance at the end of June 30, 2013. This does not reflect reserved (unspendable) fund balance, but is considered "spendable: regardless of whether it is committed or assigned.



# Statement of Estimated General Fund Balance

## HISTORY OF END OF YEAR FUND BALANCE ACTUAL 2008 THROUGH 2012 ESTIMATED AS OF JUNE 30, 2013

	2008	2009	2010	2011	2012	2013
<b>Spendable Fund Balance End of Year</b>	<b>\$ 62,320,401</b>	<b>\$ 49,048,509</b>	<b>\$ 58,806,355</b>	<b>75,350,879</b>	<b>74,883,080</b>	<b>61,748,466</b>
<b>Commitments</b>						
FY 2009 Operating Budget	\$ 4,600,000					
FY 2010 Operating Budget	\$ 1,285,347	\$ 2,315,347				
FY 2011 Operating Budget		\$ 3,600,000	\$ 4,744,291			
FY 2012 Operating Budget			\$ 2,000,000	3,625,000		
FY 2013 Operating Budget					6,839,538	
FY 2014 Operating Budget						6,204,256
Subsequent CIP (FY 2014 and beyond)					1,755,000	5,182,716
Self Insurance	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	5,000,000	5,000,000	5,000,000
<b>Assignments</b>						
New Incomplete Projects	\$ 2,902,820	\$ 1,694,734	\$ 2,255,523	2,300,000	1,350,000	1,700,000
Retiree Health and Life (OPEB)	\$ 10,700,000	\$ 6,500,000	\$ 3,700,000	2,100,000	900,000	200,000
King St. Garden	\$ 25,000	\$ 25,000	\$ 25,000			
Fuel and Social Services Contingencies	\$ 780,000	\$ 650,000				
Fire Station/Affordable Housing Project	\$ 1,600,000					
Equipment Replacement					255,762	
BRAC Contingency Funds				1,000,000		
Revenue Shortfall				4,000,000		
Gang IPE Position					75,661	
Professional and Performance Investment					450,000	
Planning Studies and One Time Studies					535,000	200,000
Encumbrances				1,788,689	2,588,843	1,700,000
Transportation/Stormwater Fund			\$ 7,836,602	3,636,139	6,891,427	242,000
Natural Disasters/Emergencies			\$ 1,000,000	2,000,000	1,300,000	1,000,000
Emergency Response		\$ 4,309,397		1,600,000	900,000	686,050
Incomplete Projects	\$ 2,902,820	\$ 1,694,734	\$ 2,255,523	2,300,000	1,723,717	1,700,000
<b>Total Commitments &amp; Assignments</b>	<b>\$ 35,270,125</b>	<b>\$ 24,721,436</b>	<b>\$ 37,532,656</b>	<b>\$ 46,159,565</b>	<b>44,081,734</b>	<b>22,115,022</b>
<b>Uncommitted/Unassigned Fund Balance</b>	<b>\$ 27,050,276</b>	<b>\$ 24,327,073</b>	<b>\$ 21,273,699</b>	<b>\$ 29,191,314</b>	<b>\$ 30,801,346</b>	<b>\$ 39,633,444</b>
<b>Unassigned Fund Balance and Revenue Shortfall Reserve EOY</b>	<b>\$ 27,050,276</b>	<b>\$ 28,636,470</b>	<b>\$ 21,273,699</b>	<b>\$ 33,191,314</b>	<b>\$ 30,801,346</b>	<b>\$ 39,633,444</b>
Reservations/nonspendable	\$ 3,167,640	\$ 4,258,482	\$ 4,235,016	5,509,288	8,099,925	8,099,925
<b>Total Fund Balance (End of Year)</b>	<b>\$ 65,488,041</b>	<b>\$ 53,306,991</b>	<b>\$ 63,041,371</b>	<b>\$ 80,860,167</b>	<b>\$ 82,983,005</b>	<b>\$ 69,848,391</b>
General Fund Revenues	\$ 520,459,051	\$ 527,918,656	\$ 530,436,316	\$ 548,970,859	571,615,475	617,289,206
Estimated Uncommitted/Unassigned Fund Balance as % of General Fund Revenues	5.2%	4.61%	4.01%	5.32%	5.39%	6.42%
Estimated Uncommitted/Unassigned Fund Balance and Revenue Shortfall Reserve as % of General Fund Revenues	5.2%	5.42%	4.01%	6.05%	5.39%	6.42%
Target = 5.5%; Limit = 4.0%						
Estimated Spendable Fund Balance as % of General Fund Revenues Limit = 10%	12.0%	9.29%	11.09%	13.73%	13.10%	10.00%
<b>Difference Between 4.0% and 5.5%</b>	<b>7,806,886</b>	<b>7,918,780</b>	<b>7,956,545</b>	<b>8,234,563</b>	<b>8,574,232</b>	<b>9,259,338</b>

# Statement of Estimated General Fund Balance

## Fund Balance Classification System

### GASB Statement #54

The City will be required to use new classifications for reporting fund balances beginning with this budget. These classifications have been developed by the Governmental Accounting Standards Board (GASB) and described in GASB Statement No. 54. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

Fund balance (the difference between assets and liabilities in the governmental fund financial statements) is among the most widely and frequently used information in state and local government financial reports. The GASB developed Statement 54 to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting across governments. To reduce confusion, the new standards establish a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

Statement 54 distinguishes fund balance between amounts that are considered completely “nonspendable,” such as fund balance associated with inventories, and other “spendable” amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications. As examples, the components of fund balance as projected in the FY 2011 Approved Budget are described under each new category.

*Nonspendable* - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact.

E.g. Notes Receivable; Inventory of Supplies; and Encumbrances.

*Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation. Effectively, restrictions may only be changed or lifted with the consent of the resource provider.

E.g. Self Insurance Balance.

*Committed* - amounts formally constrained by a government using its highest level of decision-making authority (i.e. City Council). The commitment of these funds can only be changed by the government taking the same formal action that imposed the constraint originally.

E.g. OPEB (Retiree Health and Life Ins.) funds; FY 2011 Operating Budget; FY 2011 – FY 2020 CIP; King Street Gardens; FY 2010 Contingent Reserves Savings; FY 2011 Revenue Shortfall Reserves.

*Assigned*—amounts a government *intends* to use for a particular purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority (i.e. City Manager).

E.g. Incomplete Projects.

*Unassigned*—residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose.

E.g. Undesignated General Fund balance.

# Statement of Estimated General Fund Balance

## Appendix

### Layperson's Guide to Fund Balance

The following information is based on the November 18, 1997 BFAAC report to City Council. City Council received the BFAAC report on December 9, 1997. *This report has been modified by staff with the new terminology developed by GASB related to Fund Balance classifications.*

#### The Importance of Explaining the General Fund Balance

The presentation and explanation of the general fund balance to the City Council, the citizens of Alexandria and representatives of the media is a difficult task. As the Government Financial Officers Association (GFOA) has said in its Elected Official's Guide to Fund Balance:

In our system of government, crucial decisions involving the lives of citizens are placed in the hands of elected officials. Many of these decisions involve the allocation of scarce financial resources. Arguments for and against adopted allocations of financial resources often focus on "fund balance." Unfortunately, published discussions of fund balance, as a rule, are directed toward the professional accountant rather than toward the elected official or others who may not have background or experience in governmental accounting and financial reporting. Accordingly, elected officials often find themselves in the difficult position of having to weigh arguments involving fund balance with only a vague, or even erroneous understanding of its true nature and significance.

In Alexandria, because we have benefited from sound financial management by City staff, wise decisions by City Council and good fortune, we have fund balances. For that reason, it is particularly important that the nature of the general fund balance and its necessity to the fiscal health of the City be clearly articulated in terms and with language that can be widely understood. This non-technical discussion of the general fund balance, especially as it has been maintained in Alexandria, is offered with this purpose in mind.

This document is an explanation of how the name, concept and meaning of the general fund balance will change due to the new rules governing the reporting of municipal government finances. The City has implemented GASB Statement No.34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB Statement No. 34, labeled by GASB as "the most significant change in the history of government financial reporting," mandated that by FY 2002, governments comparable to the City of Alexandria, amend their financial reporting to provide additional information about their fiscal health including information about the status of public infrastructure. In order to take a leading position in this area, utilize City accounting data and professional resources, as well as to get hands-on experience with the new reporting requirements, the City fully implemented the standard with the FY 2000 Comprehensive Annual Financial Report, two years ahead of the GASB mandate. As a result, the City of Alexandria was the first government in Virginia, the largest local government, and among the first governments in the United States to fully adopt the new reporting standards.

#### Use and Protection of the Fund Balance Under the City's Fiscal and Debt Related Financial Policies

The fiscal policies of the City of Alexandria and mandatory accounting rules have established a wise and prudent set of checks and balances to help ensure the City's fiscal stability. Neither the City's total fund balance, its spendable General Fund balance, or its unassigned fund balance, should be referred to as a "rainy day fund" or seen as a "savings" easily available for meeting emergency needs. As will be explained

## Statement of Estimated General Fund Balance

below, nonspendable portions of the General Fund balance are required by accounting rules that cannot be ignored. Commitments or assignments of some of the spendable balances represent decisions of the City Council (commitments) and Manager (assignments) that financial resources need to be set aside now to meet future needs. Only the remaining unassigned fund balance is available for meeting other unknown future financial needs. And this unassigned fund balance is not available for expenditure as would be recurring revenues. The City Council has imposed on itself a rule that it cannot appropriate unassigned fund balances beyond that proposed in the City Manager's budget except by an affirmative vote by at least five members of the Council. This appropriately balances the need to make such monies available if truly necessary in the judgment of the elected City leaders, and the need to protect against the temptation to use this balance to meet recurring operating needs when recurring operating revenues are not sufficient.

Indeed, the City Council has stated its policy to "not establish a trend of using General Fund equity to finance current operations." Specifically, its debt related financial policies declare "the City will not finance operations from the General Fund equity balance for periods longer than two years."

It is prudent to maintain some sort of balance. A portion of the balance is required to provide the City with adequate cash flow. For example, the real estate tax, which is the City's largest single revenue source, is collected in November and June, but payroll expenditures occur every two weeks. The City has adopted a debt related financial policy that it will not issue tax or revenue anticipation notes to fund governmental operations, so it must manage its cash flow in a way that provides funds to meet all working capital needs at all times. The balance also helps to protect against unanticipated expenditures or lower than expected revenues.

### The General Fund "Checkbook" Balance Under Current Municipal Government Accounting Methods

Under current municipal government financial reporting methods, the general fund is one of several types of "governmental funds". As the GFOA says, "Governmental funds are designed to measure the current financial resources on hand at the end of a period that are available to be spent or appropriated in future periods." The GFOA continues:

The focus of a governmental fund (e.g. general fund) is similar to that of an individual wishing to know what his or her checkbook balance will be after the last paycheck for the month has been deposited, and after all of the checks written to pay this month's bills have been cashed. This balance is significant because it represents the financial resources available to help pay next month's bills.

Under these current accounting methods, the general fund balance therefore can be considered to be the checkbook balance of Alexandria. It represents the best estimate of the current financial resources available at the end of the accounting period for spending in future periods.



## Statement of Estimated General Fund Balance

To determine the checkbook balance of the City, decisions have to be made about whether or not a "check" has been written by the City. In most cases, this is obvious. The obligation of City funds for payroll and the purchase of goods and services is easily measured and reported. There are some other instances in which it is not so clear whether the City has incurred or faces a certain future obligation. The touchstone to deciding these questions is whether the City has financial resources that are readily available for spending in future periods.

### Changing from the Checkbook Analogy to the Taxpayers' Equity Analogy With the Changes in Accounting Methods

Under GASB Statement No. 34, state and local governments are required to report their financial condition using government-wide financial statements and fund financial statements. The government-wide financial statements use an approach that is most similar to the approach used in the financial statements of all publicly traded companies in the U.S. The fund financial statement will retain the traditional method of accounting (modified accrual accounting) for governmental funds. Under the fund financial statements, the differences between fund assets and liabilities would continue to be reported as the reserved and unreserved fund balances.

Government-wide financial statements require a single statement that consolidates governmental activities and business-type activities. These government-wide statements are to be prepared on the full accrual basis of accounting. All revenues and expenses connected with the fiscal year will be taken into account even if the cash involved has not actually been received or paid. All capital assets, including infrastructure assets, are to be reported on the balance sheet and depreciation is to be reported as a charge to operations each period. All long-term liabilities, including debt are to be reported on the balance sheet and accrued interest is to be reported as a charge to operations each period.

With these changes, the government-wide financial statement now reports "net assets" at the bottom line. These net assets represent available financial resources, but with a longer time horizon to measure availability for future spending. The analogy of the checking account balance will be replaced by the analogy of stockholders equity, or more appropriately for municipal government finances, "taxpayers' equity". The taxpayers' equity is equal to the net asset value of the City of Alexandria.

Under GASB Statement No. 34, the general governmental fund (which contains approximately 80 percent of City revenues and expenditures) will continue under modified accrual accounting rules in the fund financial statements. Accordingly, the current budget practices in regard to reorganizing revenues and expenditures that parallel modified accrual accounting rules also will not change.

# Statement of Estimated General Fund Balance

## Understanding the Difference Between the General Fund Balance, Net Assets and Cash Balance

One common misconception is that the fund balance or net assets of the City is the same as the cash balance of the City. Cash itself is a financial resource, but it is not necessarily the only financial resource available to the City. The City may have available to it other financial resources (such as tax revenues collected by the State but not yet distributed to the City) that represent real financial resources available for spending in future periods, but not reflected yet in the cash balance. Similarly, the City holds cash that is needed to pay bills already incurred but not yet paid for. Under the longer term view of the taxpayers' equity analogy, the cash balance concept is even further distanced from truly representing the financial health of the City.

To focus only on the cash balance of the City is comparable to focusing only on the account balance you have at the bank, without recognizing the checks that you have already written and dispersed that have not yet been cashed by their recipients. These checks have not yet been deducted from your account, but they reduce your checkbook balance. Furthermore, the cash balance does not recognize the value of the assets held by the City or the eventual long term cost of such obligations, such as the need to eventually pay employees for their leave balances.

### (Non-spendable) Reserved General Fund Balance

Sometimes the checkbook balance of the City is limited by commonly used accounting restrictions or other legal restrictions that make certain funds unavailable for future spending by the City. Under current Generally Accepted Accounting Principles (GAAP) for the fund financial statements, the City must set aside as non-spendable funds to equal its inventory of supplies and its encumbrances. The inventory of supplies includes supplies that are to be used within the year. Encumbrances include undelivered orders (contracts under which goods or services have been ordered but not yet delivered and paid for). The accounting rationale for these reserves is that the inventory of supplies, notes receivable and encumbrances are not financial resources available for future spending by the City.

### (Committed and Assigned) Designated Fund Balance

Current accounting rules for municipal governments also recognize what are termed "*commitments*" or "*assignments*" of fund balances. Sometimes governments wish to specifically segregate or " earmark" financial resources for specified purposes. Such " earmarking" is reflected in financial statements by means of "*commitments*" or "*assignments*." For example, a government may wish to "*assign*" resources to help meet obligations expected to arise in connection with claims and judgments.

Only the legislative body of a government may create a "*commitment*." Only the delegated chief executive officer may create an "*an assignment*." Also from GFOA:

It is very important to distinguish between "reserves" (i.e., "reserved fund balance") (*nonspendable*) and "designations" (*commitments or assignments*). The former are an indication that financial resources are not available for appropriation, whereas the latter only indicate that management would prefer to use available financial resources for a specified purpose. Accordingly, although earmarked, designations (*commitments or assignments*) remain an integral part of a government's spendable or appropriable resources (i.e., "spendable fund balance").

## Statement of Estimated General Fund Balance

### The Power to Assign and Commit (Designate) and the Effects

Although the City Manager proposes the amounts to be *assigned* for several items as noted above, only the City Council has the power to approve *commitments* of fund balances. Only the City Council can make appropriations from the *spendable* (unreserved) fund balance for expenditure. As provided for in a resolution initially adopted by City Council in 1997, and readopted by every Council since then, any appropriations from the (*uncommitted and unassigned*) (undesignated) fund balance beyond that proposed in the City Manager's proposed budget requires the affirmative vote of five members of the City Council.

The effect of a *commitment or assignment* (designation), therefore, is to remove certain funds from availability for future appropriation outside the purpose of the *commitment or assignment* (designation). Council can, by simple majority, approve the City Manager's estimate of a reduction in an *assignment*.

From the fund accounting perspective described above, this *uncommitted and unassigned* (undesignated) General Fund balance is the equivalent of the checkbook balance of the City of Alexandria. The required *unspendable balances* (reservations) and *commitments and assignments* (designations) made as policy choices by the City Council and generally recommended by the City Manager are analogous in the checkbook example to checks written and presented for payment but not yet cleared through the bank. It is entirely reasonable for the City Council and the City Manager to debate how much should be set aside in *commitments and assignments* (designations) as described above. These decisions are the equivalent of making real spending decisions in the annual budget, even if cash is not immediately exchanged for goods or services.

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